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ANTM - Q2 2019 Anthem Inc Earnings Call

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OVERVIEW:

Co. reported 2Q19 operating revenue of $25.2b and GAAP EPS of $4.36. Expects 2019 total operating revenue to be approx. $102b and GAAP EPS to be greater than $18.34.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Anthem Second Quarter Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to the company's management.

Chris Rigg - *Anthem, Inc. - VP, IR*

Good morning, and welcome to Anthem's Second Quarter 2019 Earnings Call. This is Chris Rigg, Vice President of Investor Relations. And with us this morning are: Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of our Commercial & Specialty Business division; and Felicia Norwood, President of our Government Business division.

Gail will begin the call by giving an overview of our second quarter financial results, followed by comments on our key business initiatives and enterprise-wide growth priorities. John will then discuss our key financial metrics in greater detail and go over our updated 2019 outlook. We will then be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, antheminc.com.

We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Good morning, and thank you for joining us for Anthem's Second Quarter Earnings Call. Today, we reported second quarter results that were ahead of expectations.

During the quarter, we generated GAAP earnings per share of $4.36 and adjusted earnings per share of $4.64. Our second quarter performance reflects improved execution across the enterprise and the strength of our diversified platform. Based on the strong first half 2019 results and confidence in the remainder of the year, we have increased our full year GAAP net income guidance to greater than $18.34 per share and adjusted earnings per share guidance to greater than $19.30 per share, an increase of $0.10 from our prior guidance.

Our total medical membership at the end of the quarter was 40.9 million, an increase of 1.3 million consumers served compared to the second quarter of 2018. The membership growth was broad-based with continued strong performance in our Government Business and substantial improvement in our risk-based group Commercial business. Overall, risk-based membership represents more than 85% of our total growth.

At Investor Day, we committed to multiyear growth across all business segments, driven in part by our improved pharmacy cost position through IngenioRx. As you know, we accelerated the launch of Ingenio and successfully began migrating members on May 1. At this time, we've received transition approvals from all 14 Commercial states and a majority of our Medicaid states. As a result of our accelerated progress, we now see the 2019 earnings contribution from IngenioRx trending toward the upper end of our $0.70 to $0.90 guidance.

As part of our build-out of IngenioRx, we've recently opened our state-of-the-art, 24/7 pharmacy care center in Las Vegas, providing both member support and eventually dedicated specialty patient care. The multidisciplinary teams of nurses, pharmacists and technicians are working together, supported by our digital engagement tools to provide personalized support to improve the experience and health outcomes for consumers. The benefits of the move to IngenioRx are immediate for our clients and members, and we are on track to have all of our members on the IngenioRx platform by January 1, 2020. While there is still work ahead of us, the dedication of the 2,500 individuals focused on this transition has been extraordinary and a key driver of our success.

The strong value proposition of IngenioRx is resonating in the marketplace, and we are pleased that we were selected by Blue Cross of Idaho to provide pharmacy services effective January 1, 2020. Our partners at Blue Cross of Idaho see the value of our best-in-class capabilities and appreciate our commitment to deliver more affordable care and a simplified consumer experience. While our focus remains primarily on existing client

transitions for 2020, we are increasingly confident in our ability to capitalize on opportunities across the marketplace for us to bring innovative pharmacy services back to our medical clients.

Across Anthem, we've been investing in digital innovation to create more personalized and integrated experiences for employers, state partners, consumers and care providers. One of the areas where we see an opportunity to directly improve the health of the people we serve is with the launch of Anthem's electronic personal health record. Our electronic personal health record gives consumers access to their own electronic health record containing claims history, lab data and CMS's Blue Button data to a secure and easy-to-use mobile application. We believe easier access to this information for consumers and their families will empower them to be more engaged in health care decisions and support greater alignment and communication with care providers. The electronic personal health record will be available to our Commercial and Medicare members in the fourth quarter and will roll out to all members by early 2020.

Another area where we are focused is helping consumers manage their health and benefits in a simpler, more personal and integrated way. By leveraging our engagement capabilities with solutions, like [Anthem Amplified], we're able to deliver a consumer experience that brings together account-specific plan benefits, personal medical records and care provider selection tools to best meet individual needs.

With Anthem Amplified , consumers have access to 4 key capabilities: a health checker that works to identify symptoms using voice and digital interactions; a transparent marketplace that provides customers with upfront information around cost before they even go to the doctor; a scheduler that helps find nearby care providers and set up appointments; and finally, a retail-like experience to pay for services directly from a laptop or mobile device.

Our investments in technology are designed to create more personalized, transparent and convenient solutions for our consumers and customers. We are also leveraging digital solutions for our care provider partners by embedding these tools on our value-based programs, like Enhanced Personal Health Care, which is driving more appropriate use of services, strong adherence to clinical treatment protocols and significant cost efficiencies. Our ongoing approach across our local markets is focused on helping consumers make informed decisions, driving sustainable outcomes across all aspects of well-being and reducing overall costs.

The growth of our value-based care model is accelerating. Through the second quarter, approximately 59% of medical spend is tied to value-based care, ahead of our full year target of 58%. In addition, 36% of value-based care is now tied to shared savings programs, which is also tracking ahead of our full year target. I'm excited about the impact of the investments we are making in our digital programs and value-based care models to help us achieve our mission to improve lives and simplify health care. We will continue to develop innovative solutions that benefit our stakeholders across the continuum of care.

Our Commercial business performed well in the quarter with total margins solidly above 10% due to higher penetration of value-added services and specialty offerings in our fee-based business. Sales of specialty and clinical programs helped drive a strong upper single-digit increase in core administrative fees and other revenue. The robust growth was despite the expected seasonal decline in fee-based membership, proving that our cross-selling efforts are yielding results. In our risk-based business, we remain on track to achieve our 2019 membership growth of 150,000 to 300,000 members.

Medicare Advantage is performing well. And our strong capability in this area is positioning us for solid multiyear growth. More than 50% of our growth in Individual MA this year has been driven by market share gains. It's clear that seniors value our supplemental benefit offerings, like our unique over-the-counter solutions that improve overall affordability and the retail experience for our consumers. We expect continued growth in our Individual business over the balance of the year, and we expect to achieve our full year mid-double-digit growth target. Further, our dual special needs membership has increased nearly 300% since the end of 2015, and we now have the #1 or 2 market share position in our states today.

In the group Medicare segment, the pipeline is robust, and several recent contract wins give us confidence in our ability to deliver another year of strong growth in 2020 and bring us closer to our goal of serving 800,000 members by 2023. Over the last 12 months, we've added nearly 700,000 members in Medicaid, including approximately 65,000 members in the quarter. We were pleased to recently be awarded the statewide contract for Florida Healthy Kids effective January 1, 2020, taking our strong Simply brand from 4 regions in the state to all 11 regions in support of children's health and wellness.

The Medicaid pipeline remains robust, and our outlook for future growth is aligned to our ability to provide innovative solutions to our state partners and drive better value for our members. Importantly, our pending acquisition of Beacon will further enable us to capitalize on opportunities to serve complex and specialized populations in Medicaid as well as the overall behavioral health needs of more than 60 million consumers. This acquisition is a significant milestone for growth in the Diversified Business Group and will meaningfully expand our footprint in the growing behavioral health market. Our success to date in behavioral health has been due to our highly coordinated whole-person approach to managing care. Beacon's proven ability to manage chronic care populations and specialized expertise will strengthen us in this space as we continue to pursue growth both organically and through alliance partnerships.

At Anthem, we recognize that we play an important societal role regarding some of the most critical issues facing Americans today. For many of the nation's most vulnerable populations, we have a unique opportunity to remove social barriers. With that in mind, we recently launched the Food is Medicine program with Feeding America, the nation's largest domestic hunger relief organization. The partnership will work with hospital outpatient clinics to identify and assist people facing food insecurity, a problem that affects almost 12% of all households in a given year. By improving access to food, we can better manage the high cost of care for our state partners while empowering consumers to better manage their health and well-being.

We're also taking a strong stand relative to the environment. As a health care company, Anthem recognizes the link between environmental health and the health of our consumers and communities. And we are committed to continually improving the environmental sustainability of our operations. To that end, we recently joined RE100, which is a global initiative bringing together influential businesses focused on renewable energy. As part of this effort, we're committed to sourcing 100% of the electricity used in our offices with wind and solar energy by the year 2025. We are proud to be the first health benefits company to join the RE100, alongside other leading brands in our push for a more sustainable planet.

As we have noted before, this is a new era at Anthem. Our business results shared today and our strategic plan moving forward are driven by our continued focus on our culture with our mission, vision and values. By doing so, we are enabling our 60,000-plus associates to expect more of themselves and create real change for those we are fortunate to serve.

And now I will turn the call over to John to discuss the second quarter financial results and our revised 2019 outlook. John?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Gail, and good morning. As evidenced by our earnings release, the strength of our businesses drove balanced growth for the quarter. Today, we reported second quarter GAAP earnings per share of $4.36 and adjusted earnings per share of $4.64, exceeding expectations and positioning us to deliver on our commitment.

Second quarter operating revenue was strong and outperformed expectations reaching $25.2 billion, an increase of nearly 11% or $2.5 billion over the prior year quarter. On a HIF adjusted basis, growth in operating revenue was approximately 13% and ahead of our projected long-term revenue growth of 10% to 12%. The increase is attributable to premium increases to cover overall trend, robust membership growth across both our Government and Commercial segments and yet another quarter of strong growth in administrative fee revenue, driven by increased sales of clinical and value-added services across our businesses.

Medical membership ended the quarter at approximately 40.9 million members, representing growth of 1.3 million members over the prior year quarter. The growth was driven predominantly by our risk-based business, which increased by 1.1 million members or growth of nearly 8%. The medical loss ratio was 86.7% for the quarter, an increase of 330 basis points from the second quarter of 2018. The increase was largely driven by the 1-year waiver of a health insurance tax in 2019 and a continuation of elevated medical costs in our Medicaid business.

The SG&A ratio was unchanged sequentially at 13%, an improvement of 210 basis points over the prior year quarter. The improvement was driven almost equally by the absence of the health insurer tax and solid growth in operating revenue attributable to membership gains in Medicaid and Medicare. Our results illustrate the strength of our diversified platform as challenges in our Medicaid business were more than offset by our other business areas. Our Medicaid business continues to be within our target margins, albeit at the low end of the range. But we remain confident and

fully expect our margins to improve as we continue to work with our states on a daily basis to ensure the rates we receive appropriately reflect the acuity of our membership.

It is important to note that the challenges we are facing in our Medicaid business remain isolated to a handful of states and are very manageable, given the size and breadth of our overall portfolio. Our medical management capabilities and operating platform are unmatched, core competencies that are widely recognized by our state partners as evidenced by our industry-leading RFP win rate compared to both our diversified and pure-play competitors alike. We are pleased with our continued growth in Medicare. Year-to-date, our total Medicare Advantage membership is up 16% and a significant driver of the impressive top line growth I mentioned earlier.

Moving to a Commercial. Membership has grown nearly 300,000 members compared to the prior year quarter. It is important to keep in mind that our second quarter 2018 Commercial segment results benefited from a favorable risk-adjusted true-up associated with our 2017 ACA business. With that said, our second quarter 2019 Commercial operating margin was a solid 10.4%, reflecting the team's progress towards increasing the penetration of clinical and other value-added services. Consistent with last quarter, we continue to expect our local group medical cost trend in the range of 6%, plus or minus 50 basis points.

Turning to the balance sheet. Our debt-to-capital ratio was 39.4% at the end of the quarter. We repurchased 1.7 million shares of common stock at a weighted average price of $272.95, totaling approximately $458 million. In total, we have repurchased 2.8 million shares of common stock year-to-date. Operating cash flow was $1.4 billion in the quarter, up $895 million from the prior year and represent a 1.1x net income for the first 6 months of 2019. Days in claims payable was 39.1 days, an increase of 0.6 days sequentially and in line with expectations.

Looking ahead, we now expect full year 2019 total operating revenue of approximately $102 billion with premium revenue increasing by $2 billion at the midpoint, driven by our outlook for higher-than-expected growth in fully insured membership. Fully insured enrollment is now expected to be in the range of 15.6 million to 15.8 million lives and self-funded enrollment is now expected to be between 25.4 million and 25.5 million lives. Altogether, full year medical membership is now expected to be in the range of 41 million to 41.3 million members.

The medical loss ratio is now expected to be in the range of 86.2% to 86.5% due to the aforementioned trends in Medicaid. The SG&A ratio is now expected to be in the range of 13.2% to 13.5% due to the greater-than-expected revenue growth and administrative expense efficiencies. Taken together, we now expect full year adjusted net income to be greater than $19.30 per share.

And with that, I'll turn the call over to the operator for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sarah James from Piper Jaffray.

Sarah Elizabeth James - *Piper Jaffray Companies, Research Division - Senior Research Analyst*

So cost trends have been a pretty big topic recently. And some of your peers have been talking about -- thinking about long-term trend in terms of CPI or National Health Expenditures, plus or minus. How do you think about the right framework for long-term cost trend discussions? And then thinking through the levers there, one that's been coming up recently is outcomes-based pricing for gene therapy or medical devices. So is Anthem doing anything on that front? And is it meaningful to your long-term cost trend management?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Thank you, Sarah. Thanks very much for the question. I think it's actually a really important question because this issue of overall challenge of affordability, I think, poses one of the most significant issues to our members, and we're committed to ultimately driving the lowest cost. One of the most important levers is this ability to move to more value-based care. And as I shared in our -- my opening comments, Enhanced Personal Health Care is an area that we've been focused and have made a significant commitment to move up to 60% of our spend in value-based care arrangements. Thinking about the alignment of consumer spending to care provider alignment, I think that's really the best opportunity for long-term management of the trend issues.

Specifically to pharmacy, we recently reported -- you probably saw in our 2018 drug trend report that we have been successful at keeping drug trends relatively flat and focusing on total cost of care. And again, I think our best opportunity to rein in overall escalation and cost is to think about whole-person health, which is managing the alignment of incentives at the care provider level with the incentives around pharmacy and so that total costs are ultimately managed. And we have seen that in specific areas, like inflammatory disease, such as Crohn's and ulcerative colitis and rheumatoid arthritis, for example, where members have seen anywhere from an 8% to 12%, if not more, savings per month and average lower inpatient hospitalizations, et cetera. So that overall contributes to our overall quality.

So in terms of your broader question, I think it's absolutely the right one that we should be asking. And I think we should be looking for all of our value-based care, both from pharmacy, the integration of social as well as the integration of behavioral health in. That's one of the reasons we're excited about bringing Beacon into the fold for Anthem, that our best chance to manage the whole trend is going to be aligned with managing those components in value-based arrangements. Thank you very much for the call -- or for the question.

Operator

Your next question comes from the line of Matt Borsch from BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

I just wanted to ask about the group Commercial pricing environment. And the context is as investors and us, analysts, are looking at your results, the mix of metrics here would be somewhat elevated medical cost ratio offset by other items in the results is what in fact we saw at 2 of your peer companies that have reported so far. And so maybe it's all just Medicaid, but people are looking at that and trying to understand if there's more competitive pressure that we need to be concerned about.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Thanks for the question, Matt. Let me start, then I'm going to ask Pete to give some additional commentary on sort of the marketplace dynamics. But I think, first, to your specific question about trend, as you saw, we reiterated our 6%, plus or minus 50 basis points, trend. So our trend in Commercial has been extremely consistent. And we do not feel that there's -- that issue in Commercial has lived up to expectations. In terms of the overall marketplace, it's always been a competitive marketplace, but pricing has remained very rational in the markets. And we have not seen that kind of scenario over the course of this year or even last year. But I'm going to ask Pete maybe to give a little dynamic input about the market specifically.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thank you, Gail. And to be specific about our MLR and operating gain, as we talked about in the prepared comments, the onetime issue associated with risk adjustment that we experienced in 2018 versus this quarter in 2019 was really the major difference. As it relates to medical cost trend that Gail said, it remains pretty steady. We feel pretty good about where we are relative to that 6%. And then more importantly, as Gail noted, the marketplace remains very competitive but rational.

We are not seeing anything unusual occurring in the marketplace. We feel very good about our position. As we've talked about on prior calls, we're very focused on being disciplined but also growing. We're continuing to see that growth. In our large group fully insured business, we've had 9 out of 11 months of sequential net growth, and we continue to see improvements in that regard. So overall, a competitive market but rational, nothing irregular at this point.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

So I guess in summary, very consistent with our expectations and nothing really has changed.

Operator

Your next question comes from the line of Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

And thank you for your comments on the BER. So just trying to dig a little bit deeper into that, could you just help us quantify some of these moving parts? You point to the Medicaid book of that business. Can you give us more sense on what are specific states where you're seeing the higher cost? And how do you think is that going to progress in the second half of the year, given that you've upped your guidance there?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Ricky. This is John. And unfortunately, we really don't talk about state-by-state-specific situations in Medicaid, we're in [22] (corrected by company after the call) states right now, going on [23] (corrected by company after the call) by the end of the year and really review and discuss our Medicaid performances and portfolio of assets and portfolio of businesses. Now with that being said, there are a few things that maybe I'll point to specifically that can help you with your modeling. We continue to work with our state partners on a regular basis to get the rates that are appropriate for the risk and the acuity of the populations that we're serving.

Many states have gone through a fairly significant reverification effort, ensuring that only those Americans who are eligible to receive Medicaid benefits are actually receiving Medicaid benefits. When the rates were first set, they were set on a slightly different population and a mix of members than what we are serving today. And so as I said, we continue to work with the state to ensure that we're getting appropriate adjustments associated with the mix of membership as it works through. And there are several states that we actually have received increases in our rates in the second half of the year. And we expect that, that will help improve the MLR and improve the profitability of the Medicaid business in the second half of the year. So thank you for the question.

Operator

Your next question comes from the line of Steven Valiquette from Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Just on a similar topic on the last one, I know you don't want to talk about individual states. But again, when thinking about Medicaid, you mentioned popping up in a few states as far as the higher cost. Just curious if you'd be able to comment on whether you're seeing the cost occurring maybe in some of your newer Medicaid markets. Are you still maybe assessing where the cost trends could normalize within the membership and relative to provider network? Or are you seeing it maybe in more some of your older, more mature Medicaid markets? Just curious if there's any clear trend when thinking about it that way.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. No, thank you, Steve, for the question. And I do want to have a clarification. We have not stated that we have seen an increase in medical cost [trend] (added by company after the call). We have said we've seen an increase in benefit-expense ratio. And that increase in benefit-expense ratio is because the premium reimbursements that we are getting have not fully compensated us for the risk that we were taking on overall portfolio. Back to the point that I made on Ricky's question that states are going through reverification, there is an incidence of the mix of the membership that we are serving is different than what the pricing and the rates would have been based on. So there's -- clearly, there's a mismatch between the risk of the members that we are serving today and the rates that we are receiving today.

And Felicia Norwood and her team are visiting with our state partners on a regular basis, if not on daily basis in some cases, to ensure that the rates are appropriately reflected. And that's one of the unfortunate parts about the Medicaid businesses is that the amount of the premium that you receive and the risk that you're incurring do not always exactly align on a quarter-over-quarter basis. We've seen that typically over the course of a year that they'll be normalized, that the rates will be adjusted appropriately. But when you're looking at any 1 specific quarter or any quarter-over-quarter comparison, it's always have to be skewed a bit because of the mismatch that I discussed. So thank you for the question.

Operator

Your next question comes from the line of Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

I'll just keep on the MLR train here for a second. My question is more -- is that your future MLR was 90 basis points above consensus. I was hoping you can tell us how the MLR looked versus your internal expectations and maybe split out the driver of, first, the negative PYD in the quarter. And you raised the low end of guidance by 30 bps. Was that to reflect what you saw in the quarter? Or to your point, like is that the back half of the year is simply higher, even despite these better Medicaid rates?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Thanks, Justin. And I will let John continue with the answers. Thanks, John.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thank you. Yes, thank you, Justin, for the question. In terms of the MLR and how it compared to our internal expectations, the MLR was slightly higher than our internal expectations here for the first half of the year and the second quarter, which is why we are raising our guidance, which is why we have spiked it out as a reason for the fact that our MLR is above the analyst consensus in total. So I think that all really does align.

In terms of the PPIA that you stated. The PPIA is one metric. It's obviously a metric that a lot of folks really do like to focus on. But it is only one metric. I would say our reserves are very consistent and conservative that way that we've approached it. We continue to have a margin in the mid- to high single-digit range for adverse deviation. But we are investing quite a bit of money in informatics, in data, in systems. And it's actually providing us better information and better insights into our (inaudible) data. And so not only is that being utilized to help serve the members, it's also being utilized to help set reserves. And I think we should see maybe a bit less volatility in reserves in the future associated with the fact that we have better information. And we've even discussed in the past that some of the claims processing speeds have improved as well. 97% of our claims are submitted via EDI and 88% are auto-adjudicated. So the speed and accuracy is actually very, very good.

And so then as you look at that one metric associated with PPIA, you have to look at other metrics in conjunction with that in the fact that our days in claims payable has increased a bit. Our cash flow as a percent of net income was 1.3x for the quarter, 1.1x for the entire year-to-date. And I think we're very comfortable that the reserves I've stated appropriately. And quite honestly, I go through all this just to let you know that it's really not

impacting the MLR guidance per se. The MLR guidance is based on the Medicaid MLR being higher than expected, which really has as much to do with the revenue that we're getting is not exactly matching the risk that we are taking right here in the second quarter. So thank you.

Operator

Your next question comes from the line of A.J. Rice from Crédit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I just -- if I could slip in a clarification. Pete had mentioned the risk adjuster headwind this year versus last. Is that -- any way to quantify the year-to-year impact of that or -- on the MLR or the dollar change? And then my bigger question was around your comments on Ingenio. You said that you're going to be toward the high end of your expectation. Is there any way to talk about where you're trending ahead of what you thought? And obviously, it's a nice win with BCBS Idaho. Any background on that opportunity? And does that give you any learnings for next year's selling season as you think about moving forward?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Okay. Quite a few questions there, A.J. We'll try to take them sequentially. Let me have John address the risk adjuster question broadly and then we'll take the others.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, great. Thank you, Gail. So yes, so A.J., on the risk adjuster, I just want to make sure that this is being characterized appropriately and we're asking and answering the proper question. So risk adjuster in 2018 in the second quarter, we had a very nice positive true-up. And that was predicated on our 2017 Individual ACA membership. And as you recall, that was before we had made the decision to reduce our footprint due to the instability and uncertainty of that marketplace. And so we had approximately 1.6 million Individual ACA members in 12/31/17.

And then the true-up we received in June was predicated on that block of business. And then fast-forward 12 months and we received a true-up in June of 2019 associated with our 2018 membership. That true-up was positive. It was relatively small and it was extremely consistent with our expectations. And so the headwind is not a negative true-up. The headwind is that the value of the true-up in '18 was significant and the value of the positive true-up in '19 was relatively small. But as I said, in accordance with our guidance and our expectations.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Right. And again, that's the comp quarter-over-quarter, I think, is what John is trying to really point out there. And overall, as I said in the opening comments, we feel very, very strongly about the performance of our Commercial business, which performed extremely well in the quarter and as well as year-to-date. In terms of IngenioRx, a couple of things. One, first, we're extremely pleased with the way the transition has gone, as I shared again in my opening comments. In terms of us raising our guidance, when we originally gave our guidance, I think what's important to recognize, this was a very accelerated transition. We felt confident about it, but we also realized that we needed to get state approvals both at the Commercial and Medicaid levels. So we didn't have exact clarity on when those would come in.

What we have seen now is that we converted several million members in the quarter and then again beginning in July, several million more. Those have gone well. We have received most of the regulatory approvals on the Medicaid side and all of them on the Commercial side. And so now given our growing confidence in this conversion, we feel much better about the high end of the range. And that's really the driver for what we're seeing in terms of raising the guidance. And again, very strong execution by our pharmacy team. So overall, that's really the driver. And we feel very confident about kind of where IngenioRx is delivering value, particularly the significantly improved unit cost.

In terms of Idaho, we're thrilled with the sale to Blue Cross of Idaho. And again, our focus, as we've shared, has been on transitioning our current clients. So we are in the sales cycle. We're pleased that Blue Cross of Idaho was one of our first customers to come onboard. And as I shared with you again, I think it's a strong sign of the value that we're bringing to the marketplace and also the improved service model. We do have a very strong pipeline going into 2021. As you realize, many of these sales are very long tail, 2, 3 years based on the contracts in the PBM and the large account business. But we think a real big opportunity for us is the opportunity to bring back pharmacy into our integrated medical clients. That's an area that over the last several years that we have lost quite a bit of that integrated business, and our value proposition is very strong there. So we're optimistic about that, but we see that going really more into latter half of '20 and into '21. Thank you very much for the question.

Operator

Your next question comes from the line of Lance Wilkes from Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Just a quick clarification on Medicaid and just trying to understand -- understanding that it's a reverification issue predominantly, are you taking any actions to try to further impact medical cost beyond what you ordinarily would be doing just in recognition of that sort of issue? And then my broader question is really great win with Blue Cross of Idaho. As you're looking at the different services and partnerships you have with the Blues, what are the areas that we should be thinking of as like the more immediate, meaning '20, '21 sort of opportunities? Is it Medicaid? Is it AIM? Or would it be PBM?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Great. Thank you very much for the question, Lance. I'm going to have Felicia address what's happening in our Medicaid business and then she can talk broadly about the initiatives.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Thank you, Lance. As John said earlier, the Medicaid challenges that we're facing are really isolated to a handful of states. And given the breadth and size of our portfolio and the ongoing work that we do on a daily basis with our states, we felt very confident about being able to manage through that. In terms of our medical management capabilities, we really have industry-leading capabilities. Our operating platform is unmatched. Our core competencies are certainly widely recognized by our state partners as really recognized by the industry-leading win rate that we've had.

We've always had a focus on whole-person health, particularly in our Medicaid business and the ability to be able to manage not just, as you know, the medical conditions and pharmacy conditions, but also those social barriers have been a driver for us. So we feel good about the capabilities we have on the Medicaid side in terms of managing our members effectively. And I think as we work through these issues in a handful of states, we'll continue to see improvement with respect to our overall Medicaid performance.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Great. Well, thanks, Felicia. In terms of the second part of your question, Lance, I would say almost to all of those, we see opportunities across a very wide range of partnerships with different Blue plans. But also outside of Blue plans, care provider partners are also areas that we have done a number of different things. So on the specifics though, clearly our Medicaid partnerships, we're very pleased with that. We'll be bringing North Carolina live in the fourth quarter. Hopefully as that goes live, we've got additional partnerships there with our CareMore business as well to offer care delivery services more broadly to that population. As I think about Ingenio, we clearly see opportunities for Ingenio to partner with other Blue plans across either their entire population, even subsets of that population.

Beacon does quite a bit of work with other Blue Cross and Blue Shield Plans. And we see that as an opportunity to further expand. And Aspire has also strong relationships. So as you can see, we see breadth of potential opportunities both inside of Blue Cross system but also with care provider partners. And today, even just to give you one quick example, in the Medicaid space, we have 8 partnerships, 5 are with sister Blue Cross and Blue Shield Plans and 3 are with care provider relationship.

On Medicare, because of our strength in the dual eligible population, we're going to be expanding our partnership in Louisiana to dual eligibles beginning in January as well. So again, a pretty broad-based opportunity for us. And so we're not just focused on growing one specific business or line but really kind of meeting the needs of each of those plans and where they have potential gaps and potentially how we can put together very unique situations.

The last thing I would add is, as you saw probably recently some of the announcements around our digital capabilities, we also believe that those will be very strong offerings for us to work with other Blue plans around consumer engagement and care provider integration. And those things, we think, will resonate very strongly in the market and actually support the other businesses that I've shared with you at the beginning. So thank you very much for the question.

Operator

Your next question comes from the line of Kevin Fischbeck from Bank of America Merrill Lynch.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Great. Maybe one clarification before the question. Just to make sure, the Ingenio number that you're talking about is more about kind of pulling forward the aggregate savings, you're not changing your kind of 2-year aggregate savings number. Just want to make sure I have that right. But my real question is really about MLR, unfortunately. So I just want to see what you were saying that the issue is really on the Medicaid side, would love to hear some comments about on the Commercial business and on the Medicare business, how the MLR is trending there. Just to make sure it's in line because you are showing pretty good growth in both of those businesses.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Let me answer your first question. Yes, you are right. Your assessment on Ingenio is in line. And then John, I'll ask to respond to the MLR question.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thank you, Kevin, for the question. And as I think Pete had referenced earlier, the MLR in Commercial is actually very much aligned with what our expectations have been. As we review and evaluate the cost trends, we have reaffirmed today the 6%, plus or minus 50 basis point, cost trend in Commercial. That has been something that's been consistent for the entire year and we continue to reaffirm that guidance. Medicare has been certainly consistent with our expectations as well. We're really quite pleased with our growth in Medicare, having a 16% growth rate already through 6 months and expect to continue to improve that.

The Group Retiree business within Medicare, which you didn't ask about specifically but just for clarity purposes, that business is typically dilutive when its first sold. And it takes a while to get the care management programs, get the risk scores, get the information accumulated so that we can get appropriate reimbursement based on risk adjusters and various other aspects like that. But it's actually performing in line with our expectations. We did expect it to be dilutive in the first half of the year, and it was. But it's very much in line with expectations. So I would say we feel very comfortable with the performance and the growth both in our Commercial business as well as our Medicare business. And that the MLR pressures that we're seeing as a consolidated company really relate to the lack of appropriate premium and reimbursement rates on the Medicaid businesses.

Operator

Your next question comes from the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

So you mentioned a couple of times now that Medicaid rates are sufficient, I guess, in a handful of states. I'll assume you have some visibility on kind of the year ahead. We obviously recently got the Iowa rate. So are you comfortable looking ahead that you'll get the better rates? Or are we at a point of potentially exiting states?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

No. Thank you for the question, Ralph. And clearly, that is a very appropriate question, something that we need to be looking at in evaluating on a state-by-state basis. However, we are very comfortable with the future state aspect of Medicaid. Medicaid does have the $80 billion pipeline that we've been talking about for a while over the next 5 years. And we do believe that we can garner our fair share of that. The acuity of that pipeline is skewed more to the higher premium-type businesses, whether it's aged, blind or disabled, long-term support services or others.

And we will be very disciplined in terms of how we approach that, how we price for that to ensure that we are being appropriately reimbursed. But no, we're not at the point now that we're talking about exiting states. We want to be a partner with the state. We believe the states like us as a partner. We have provided significant amount of value and savings to these states over time. And it all boils down just getting the reimbursement correct. So we feel very good about both the short-term and the long-term trajectory of the Medicaid business.

Operator

Your next question comes from the line of Steve Tanal from Goldman Sachs.

Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Unfortunately, I also wanted to just ask about MLR and hopefully just get this one thing sort of ticked away. The claims payable table would suggest there's about $40 million of unfavorable prior year development in the quarter and it was favorable about $160 million last year, so sort of a $200 million swing that, in isolation, would have pressured MBR by about 85 bps year-on-year. But then in the release, you sort of note that claims reserves established in the year-end developed moderately better. So first, just trying to understand what was actually built in the guidance on that point and also where the negative development kind of emanated from by business? And then finally on this whole thing, just hoping you might comment on how MLR trended year-on-year in Commercial and Medicaid -- side of Medicaid?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sure. Steve, thank you very much. The PPIA metric that you stated was consistent with how I answered Justin Lake's question a few minutes ago associated with that our reserves are very consistent and that we do have explicit conservatism built into those. The better information we have, the better insights has certainly provided us clarity in terms of our loss reserves. And it's just one metric. Days in claims payable has increased, cash flow has been very positive, 1.3x net income. And so we feel very good about the situation.

One other thing, just to really clarify. When you're looking at the prior year number, of course, that's based on the 12/31/17 runout. And the 12/31/17 runout had 1.6 million Individual ACA members in it. And we had announced a few months earlier that we were going to exit 65% of the footprint associated with the Individual ACA. And so we were very conservative in the fourth quarter of 2017 associated with our reserve picks on the ACA -- Individual ACA business. And that turned out to be redundant, which you're seeing in the roll-forward footnote from a year ago.

So all-in, we actually feel very comfortable with the business. There's no new -- there's no surprises here. There's no new news. Medicaid has been performing under our expectations. Commercial and Medicare have both been performing consistent with our expectations. And we actually feel very good about the revenue adjustments and the revenue enhancements that we're expecting in Medicaid in the second half of the year. And then we'll continue on with the strong performance in Commercial and Medicare.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Yes. The only thing I'd like to add to John's comment is Medicaid is performing within our range, although at the low end of the range. So that is a little bit more clarity on that. And so overall, we still believe that the Medicaid is very good business. But again, you see this in the Medicaid business, where you're trying to align the mix of the business against the payments that you receive. And that's why we often see out-of-payment -- out-of-period payments in Medicaid.

Operator

Your next question comes from the line of Gary Taylor from JPMorgan.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

Just one clarification for Gail and a question for John. Gail, just wondering on Ingenio. As we think about it, you mentioned the strong 2021 pipeline and a big priority is moving Anthem's own book to Ingenio by January of 2020. So I guess we really haven't thought much about the opportunity for large external client wins for 2020 such as Idaho. So this is just sort of an anomaly? Or is there really more opportunity there than perhaps we've considered?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Thanks for the question, Gary. First, we're really pleased with the win. So I don't know that I would call it an anomaly. We're out in the marketplace. This is more just about the timing of contract renewals and I think are quite frankly we've been -- we have not been aggressively selling for '20, just given the amounts of conversion. And we wanted to make sure that went really well for a couple of clients. But we're clearly out there talking to clients and sharing our value proposition.

So I wouldn't call it an anomaly. But I would also say that we really do believe that it will be more in '21 and beyond just because of the timing. And it is hard for many clients to move off of the cycle that they currently have. And that's would be more in line with expectations. But we would like to see certainly the integration of our medical and pharmacy story is really strong. And we think that there's opportunities to do more in '20. Thank you. And the second part of the question again, please?

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

When you cite a few of the different factors impacting the MLR year-over-year, including Medicaid and the 3Rs, et cetera, one thing you don't talk about is the possibility of a pretty significant ramp in the ESI contract cost that Cigna has talked about in the closing years here. So is the reason that's not pressuring MLR year-over-year is just that, that was well-known by you in advance and would have been reflected in pricing?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. And no, thank you, Gary. That's an excellent question. And as we have stated, we are being overcharged by in excess of $3 billion by Express Scripts based on our contractual provisions. But that was known and it was baked into our numbers. The trend that we experienced for pharmacy, while it's higher than we would like, it's consistent with what we planned for at the beginning of the year. So thank you.

Operator

Your next question comes from the line of Peter Costa from Wells Fargo.

Peter Heinz Costa - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Back to Blue Cross of Idaho question. Congratulations on that. Blue Cross of Idaho, I believe, used CVS as their PBM previously and you use CVS for Ingenio as the back end. How much easier did that make it to win that client because of CVS as most of the other Blue Cross and Blue Shield Plans are using either Express or Prime? How much harder will it be for you to win business away from Express and Prime rather than from a CVS customer?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Yes. So thanks for the question. I think overall, the opportunity to win this was really because of the strong value proposition that we bring to the marketplace. So I really focus on the (inaudible) we built a brand-new service center, I think we've got state-of-the-art capabilities that are superior to many in the space right now. And honestly, we have the experience working as a Blue plan ourselves and understand how to serve that marketplace very, very well.

And this gives us an opportunity as part of our whole-person health to integrate those type of concepts in terms of our analytics, our digital platforms, the integrated teams that we've put in our Las Vegas center. So we're starting really with a kind of a blank sheet of paper, which makes this the next-generation PBM. And I guess I would focus more on that because I think that's the value proposition that we bring to the marketplace versus targeting any individual competitor and trying to beat them. I mean we're trying to create a brand-new value proposition. Thank you very much.

Operator

Your next question comes from the line of Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Had a question regarding the Senate Finance Committee drug pricing bill that was introduced yesterday. And in one of the provisions, particularly when it refers to Medicaid, eliminating spread pricing for PBMs. And I believe the Senate Health Committee is also looking to eliminate that perhaps in the commercial market. Can you talk about sort of the prevalence at this point of spread pricing in PBM contracting maybe in general or particularly with Ingenio? And our estimates, we're estimating maybe it's less than 2%. But can you talk about sort of how you see that impacting your business here? And then obviously, those are redesigned into Part D program or proposed redesign of Part D program, shifting more cost (inaudible) catastrophic to the plan. How do you see that maybe impacting how premiums are set or any impact to Part D plan sponsors?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Well, thanks, Charles, quite a few questions there. And I think, first and foremost, where we are all aligned is on the affordability of pharmacy in that we need to ensure that we have a strong -- we have strong programs in place quite frankly on total cost -- total net cost, meaning total cost of premium as well as what consumers pay ultimately. In terms of you mentioned a number of things that are happening right now. And there are a number of things going on in the House and the Senate around pricing, whether it's spread pricing or some of the other issues that you brought up on Part D. I think, first and foremost, we're in the midst of providing comments on that and actively engaged in that. And I think given that -- and these have been recently released and a lot of this depends on the details, I think it's premature for us to comment publicly on where we think these are going to end up.

Again, we're committed to ensuring that we get to the best, lowest net cost. And we clearly align with sort of our states. And if you ask about Medicaid, where our states are, we clearly align with the rules of our states and same thing with the federal government on Medicare. So overall, I think there's going to be a lot more discussion, debate and input. We're going to need to get to a lot more of the details on specifically how these programs are going to work. But at this stage, I think the ultimate judge needs to be the lowest net cost both from cost to consumers but also premium cost ultimately to all parties involved. So I can't really provide much more guidance on that because at this stage, I think that there's still a lot more details around these proposals and how they would work.

Operator

Your next question comes from the line of Dave Windley from Jefferies.

David Anthony Styblo - *Jefferies LLC, Research Division - Equity Analyst*

It's Dave Styblo in for Dave Windley. I just had a question about the Medicaid. I think management has done a great job of explaining how it's isolated for the handful of states. Curious about the risk that this could lead into other states, if there might be a second wave that could come at some point. And how do the rate discussions are involving beyond the short list of states that you guys have talked about? And then as a follow-up, what -- would management care to comment about the EPS cadence in the back half of the year since there's so many moving parts with Ingenio coming on and some of the earlier wins that were dilutive in the first half becoming more breakeven or positive in the second half?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

I think John will answer the second part of your question and then I'll ask Felicia to comment a little bit about just sort of the environment in Medicaid. But I do commend everyone for getting multiple questions in quite a few. So there's quite a few there and we'll try to address all of them. John, please?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Right. A lot of multipart one questions. But no, thank you for the question in the cadence of our EPS seasonality because our seasonality certainly has changed and it's changed over the years. A few years ago, it changed when the elimination of the reinsurance program occurred through the ACA. It changed again when we exited the ACA. And now it's changing again with the launch of Ingenio. And it will change next year due to a full year impact of Ingenio. So thank you for clarifying or allowing me to clarify that the earnings seasonality has and will continue to change on a quarter-over-quarter basis. In 2019, there are a couple of other things very specifically that are driving our year-over-year and quarter-over-quarter seasonality. I talked about the Commercial risk adjustment for the ACA was fairly significant in the second quarter of 2018. And it was a positive adjustment in the second quarter of 2019 but relatively small. And that clearly is impacting our year-over-year seasonality.

Our mix of business continues to change. And I'm not sure that everyone has truly reflected just how much our mix of business has changed over the past several years. You go back 10 years ago, we were a commercial company. We had over 70% of our revenues was generated from our Commercial business area. And look at the second quarter results today, over 60% of our revenue is from our Government Business Division. And the Government Business Division has a bit flatter seasonality typically than Commercial does. And so clearly, that's continuing to change it. And I've talked about some of out-of-period adjustments on Medicaid and the fact that they don't always align. As we look at the second half of 2019, we do see some revenue enhancements in Medicaid, given some of the recent rate actions and some of the other common conversations we've had with our state partners.

But then there's also things like when we went live with our partnership with Blue Cross Blue Shield of Minnesota for Medicaid in the fourth quarter of last year, we encouraged significant administrative expense to be prepared to have a very clean and flawless 1/1/19 transition to that membership. And that transition went relatively well. And now we expect the second half of '19 for it to be accretive, working its way towards our target margin range for a new line of business or a new state. And so when you're looking at the second half of 2019, you'll have the cost of implementation. And

you look at the second half of '18, the cost of implementation, the second half of 2019, we have the accretion. And the same thing is going on with the Group Retiree business. I referenced that, that was dilutive at the beginning. And it is dilutive, but it's improving throughout the year. So a lot of moving parts, but we're very comfortable with the overall aspect of our numbers.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Great. Maybe, Felicia, give a little commentary about the state.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Sure. And thanks for the question, Dave. As we said, there was elevated cost pressures in a handful of states. But the discipline around working with states with respect to rates happens in all of our states. So our teams are engaged in almost a daily basis in working with our states around understanding what's happening with the emerging experience through our Medicaid membership and the mix issues that we've discussed before. So the other thing you should understand, too, is all the states' rating periods are different. So they're not on a calendar year. They happen at different times of the year. In addition to that, there are also opportunities for mid-year rate adjustments. So the rate process in states is very complex, dynamic and very iterative in terms of the work that we have to do on a daily basis. So while the pressures are certainly isolated in handful of states, the discipline around the work that we do with our states on a day-to-day basis happens consistently across all 22 or so of our markets.

Operator

Your next question comes from the line of Josh Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

I'm going to be brief, I guess. Just on Idaho, if you could just walk us through the process of that. Was there a formal RFP? And if so, what -- when did that happen and maybe just let us know what resonated with them? What were the big takeaways that they weren't getting from their previous PBM administrator that they're looking for with you guys?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Yes. Well, thanks, Josh. Obviously, we don't get into detail about specific customer RFP situations and that kind of detail. It's confidential and it's obviously competitive in nature. But I guess what I would say is our new platform, our transparent approach, the focus that we put on digital integration and consumer services, I think, all resonated. And our ability to really understand quite frankly how that business had managed and tried to help them improve their overall affordability and cost should be the key winners. And we have a very compelling value proposition overall. We believe we have best-in-class rates in contracting. And that, combined with really solid integration, I think are really kind of -- were part of the reason for the win. So thanks for the question.

Operator

Your next question comes from the line of Scott Fidel from Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Actually, just wanted to shift back over to group MA and was hoping maybe to get some numbers just around the membership pipeline opportunity for 2020. Maybe just, first, if you could size in terms of the number of lives of the contracts that you've already secured that you mentioned and then overall, how large the membership opportunity is on the group MA pipeline for 2020.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Great. I'll ask Pete to comment on that.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes, sure. Scott, thanks for the question. Yes, we feel good about the group MA business. As you know, last year, we started off at around 20,000 members. We've grown that into the year at 150,000, approaching around 160,000 members. And as we've talked about, we're going to end the year this year approaching 200,000 and we still feel good about that. A lot of our opportunities, we've talked about before, comes from our conversion opportunities, which means that we have a captive pipeline of self-funded clients that see the value proposition here. And we continue to see that escalating and our value proposition resonating. And we feel good about the future year growth of the Group Retiree business.

Operator

Your next question comes from the line of Michael Newshel from Evercore.

Michael Anthony Newshel - *Evercore ISI Institutional Equities, Research Division - Associate*

Can you comment on some of the recent policy proposals related to negotiated commercial rates? So we have the Trump executive order on transparency and also surprise billing -- bills that would pay out a network at a local median rate. Do you think either of these could have any effect on relative cost advantage? Does it help competitors with higher unit costs at all?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

So a couple of different things going on. And let me first talk about surprise billing. We very much support that consumers do not have surprises. And part of our contracting strategy is to bring in all of those care providers into our networks. So when an individual consumer goes to somebody in-network, they should not have to deal with something that's outside of the network. And that's something that we have long advocated with our care providers. And so we're obviously very supportive of that. We want to ensure that there are -- the appropriate protection for consumers and that they balance the incentives for providers. But we don't replace that obviously with costly bureaucratic processes. So that would be one thing on surprise billing. But overall, we're very supportive of helping consumers have defined cost and really understand that.

In terms of the second one around transparency of costs. Again, we've been a long supporter of enabling consumers to really understand what costs are. We think it's a little -- it's less valuable to have individual unit cost by procedure. And that's one of the reasons our Engage platform allows people to really truly understand how much something costs against their benefit plan and what their truly out-of-pocket cost would become. Great example of it, think about a member who needs an MRI. The average cost may be $1,200, which is great to know if you look at the individual components. But actually, it may only cost $50 out of pocket because they've already met their deductible. And that's way more helpful. And then they can also compare different facilities and look at not just cost but also quality.

As I think about though the price transparency issue, the other issue in terms of competitiveness for us is our move to value-based care, I think, really changes sort of the intense focus on just unit cost. So I believe our value-based -- our movement to value-based care will drive cost down to a much more reasonable level and that's where our strategy is. And so I don't see just the unit cost issue being the dominant issue. And I think that we have to think about transparency around total cost of care again for the entire procedure and how it affects consumers directly and that they can make decisions based on what they're paying out of pocket. Thank you very much for the question.

Operator

Your next question comes from the line of Frank Morgan from RBC Capital.

Frank George Morgan - *RBC Capital Markets, LLC, Research Division - MD of Healthcare Services Equity Research*

A lot of my questions have been answered. But maybe go back to Beacon acquisition, just the timing there on that closing of that acquisition, the possibility of additional deals, cross-sell opportunities. And would that be affected by this transition of Express Scripts? Or would that be totally unrelated?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

In terms of Beacon, what we've shared is that we're planning or working towards a fourth quarter close and we're working through obviously all the approvals that are required there. In terms of your second question, it really doesn't have any relationship to that, completely separate issues. What it means for us in the future, we're excited about Beacon because again it gives us part of our whole-person care strategy, our movement towards very much focused on value-based care, which I just spoke about here, areas that we're focused on social issues and now the behavioral issues. Those 3 combined, I think, allow us to much more effectively manage total cost of care. So we're excited about Beacon, gives us a scaled solution and a growing area and a very important area for us. It focuses on the specialized populations in Medicaid. So we have seen them in many of our markets and feel that this will be a very, very strong offering for us. So again, thank you for the question.

Operator

Your final question today comes from the line of Steve Willoughby from Cleveland Research.

Rob Cottrell

This is actually Rob Cottrell on for Steve. Just wanted to stay on Individual Medicare for 2020 now that bids have been submitted. Just wondering if you can provide any commentary on outlook as well as what, if any, changes you expect in the Medicare business now that you have the Ingenio cost position?

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Great. I'll ask Felicia Norwood to answer it, please?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

So thank you very much, Rob, for that question. As we think about 2020, we take a real balanced approach in structuring our bids. We evaluate both our benefit designs as well as the competitive landscape. We certainly appreciate the increased flexibility that's come from our federal partner around the 2019 benefit offerings, where we made some changes with respect to social determinants of health benefits. And frankly, I think we were leaders out there in terms of that space.

We will be making some modest improvements with respect to those offerings because we believe that they certainly can be differentiators with respect to our products in the various markets. Going forward, the story isn't changed very much. We've been delivering very strong growth in the Individual MA space. And certainly, our approach is to make sure that we have competitive benefit designs out there while also making sure that we are maintaining our pricing discipline with respect to this business as we go forward. So thank you.

Gail Koziara Boudreaux - *Anthem, Inc. - President & CEO*

Thank you, Felicia, and thank you to everyone for allowing our call to go a little longer than normal. We felt it was important to respond to everyone's questions. We appreciate your questions for our team. Our performance in the first half of this year gives us confidence in our ability to capitalize on future growth prospects and deliver better outcomes and better value on behalf of our members and shareholders. Our success is made possible by our 60,000 associates who are committed to carrying out Anthem's mission, vision and values each and every day. Again, thank you for your interest, and I look forward to speaking with you in the future.

Operator

Ladies and gentlemen, this conference will be available for replay after 11:00 a.m. Eastern Time today through August 7. You may access the AT&T Teleconference Replay System at any time by dialing 1 (800) 475-6701 and entering the access code 432045. International participants dial (320) 365-3844. That does conclude your conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.
